



## **Higher Education Funding Formula: An Overview**

**Presentation to the  
Government Restructuring Task Force  
October 14, 2010**

**M. Tino Pestalozzi, CPA  
Deputy Cabinet Secretary**

### **The Department's Statutory Charge:**

- "Be concerned with the adequate financing of these institutions and with the equitable distribution of available funds among them;"  
NMSA 1978, § 21-1-26
- "Develop a funding formula that will provide funding for each [public] institution of higher education to accomplish its mission as determined by a statewide plan."  
NMSA 1978, § 21-2-5.1

## State General Fund Appropriations for Education for FY 2010-11:

	(millions)
Public Schools (incl. PED)	\$2,418.0
Higher Education:	
<b>Formula I&amp;G</b>	<b>\$566.0</b>
UNM Health Sciences Center	91.1
Department of Agriculture (at NMSU)	10.7
NMHED, including State Financial Aid	40.4
Research, Public Service & Other Prgms	<u>79.8</u>
Total Higher Education	\$788.0
Grand Total Education (P-20)	\$3,206.0

NMHED Higher Ed Funding Formula Overview, October 2010, Page 3

## Current Higher Education Funding Formula:

- Establishes State General Fund level for annual Instruction & General\* (I&G) budget for public universities (7) and community colleges (17)
- Was redesigned (simplified) thru collaborative process effective FY 2003-04

\*Instruction & General consists of:

- o Instruction (educational departments, faculty, support staff, supplies)
- o Academic Support (library, deans' offices, faculty senate, labs)
- o Student Services (admissions, registrar, financial aid, advising)
- o Institutional Support (administration, business office, human resources)
- o Operation and Maintenance of Plant (buildings, grounds, utilities)

NMHED Higher Ed Funding Formula Overview, October 2010, Page 4

**Budgeted Expenditures for FY 2009-10:**  
\$ millions

Budget Category	UNM	%	SFCC	%
<b>I&amp;G</b>	<b>292.0</b>	<b>32.8%</b>	<b>27.3</b>	<b>34.8%</b>
Research	26.0	2.9%	0.0	0.0%
Public Service	40.7	4.6%	6.7	8.5%
Financial Aid	46.6	5.2%	0.3	0.4%
Auxiliaries	56.2	6.3%	2.1	2.7%
Other	40.2	4.5%	0.0	0.0%
Total "Unrestricted" Funds	501.7	56.4%	36.4	46.4%
Grants/Contracts ("Restricted")	139.9	15.7%	11.8	15.0%
Plant Funds (Capital Outlay etc)	248.0	27.9%	30.3	38.6%
<b>GRAND TOTAL</b>	<b>889.6</b>	<b>100.0%</b>	<b>78.5</b>	<b>100.0%</b>

NMHED Higher Ed Funding Formula Overview, October 2010, Page 5

**Budgeted I&G Expenditures for FY 2009-10:**  
\$ millions

I&G Budget Category (Unrestr.)	UNM	%	SFCC	%
Tuition & Fees	104.5	31.2%	4.5	16.9%
<b>State Appropriations (Formula)</b>	<b>189.8</b>	<b>56.7%</b>	<b>8.6</b>	<b>32.3%</b>
Local Appropriations	0.0	0.0%	13.4	50.4%
Land & Perm Fund/Endowm	11.4	3.4%	0.0	0.0%
Other Sources	29.0	8.7%	0.1	0.4%
<b>Total Revenues</b>	<b>334.7</b>	<b>100.0%</b>	<b>26.6</b>	<b>100.0%</b>
Instruction	158.1	54.1%	13.3	48.7%
General	133.9	45.9%	14.0	51.3%
<b>Total Expenditures</b>	<b>292.0</b>	<b>100.0%</b>	<b>27.3</b>	<b>100.0%</b>

NMHED Higher Ed Funding Formula Overview, October 2010, Page 6

### **Funding Formula Summary:**

Prior Year's Instruction & General Appropriation

- +/- Instruction and Instructional Support (if "out-of-band")
- +/- Student Services (if "out-of-band")
- +/- Physical Plant Operation and Maintenance/Utilities
- +/- Land and Permanent Fund Revenue Credit
- +/- Mil Levy Revenue Credit
- +/- Tuition Revenue Credit (including dual credit tuition off-set)
- +/- 3% Scholarship Adjustment
- +/- Building Renewal and Replacement Adjustment
- +/- Equipment Renewal and Replacement Adjustment
- + Inflationary Adjustments, including compensation/ERB
- + Other "regular" Adjustments (e.g. branch phase-in)
- Budget balancing reductions (e.g. 0.544% sanding FY11)

= Recommended General Fund Appropriation for  
Instruction & General for New Fiscal Year

NMHED Higher Ed Funding Formula Overview, October 2010, Page 7

### **Mechanics of the Formula: Instruction and Instructional Support**

- Each course is assigned an identifier referred to as a CIP code (Classification of Instructional Program), based on national standards; each course is also assigned a common course number that facilitates articulation (transfer of credits).
- Courses are categorized into clusters by NMHED, and clusters are categorized into three tiers based on the estimated, average cost of delivering instruction.
- Student credit hours from the most recent academic year are mapped to the appropriate cluster and tier by level of instruction.
- Institutions are funded based on the total number of student credit hours compared to the base year of the institution.

NMHED Higher Ed Funding Formula Overview, October 2010, Page 8

### An Example of Student Credit Hour Distribution for a University

Tier	Cluster	Level of Instruction		
		Lower	Upper	Graduate
1	0500 Business	4,452	4,999	417
	0800 Education	5,622	8,781	4,614
	1000 Fine Arts	6,487	2,086	0
	1100 Foreign Languages	1,097	372	21
	1400 Law	0	0	0
	1500 Letters	9,938	2,438	533
	1700 Mathematics	7,301	870	0
	2200 Social Sciences	11,483	6,271	1,689
2	0100 Agriculture	1,145	919	0
	0400 Biology	3,688	1,124	159
	1000 Fine Arts	0	0	43
	1200 Health Sciences	0	1,456	671
	1700 Mathematics	0	0	87
	1900 Physical Science	2,374	0	0
	5300 Trades & Tech	0	0	0
3	0900 Engineering	297	227	0
	1200 Health Sciences	183	0	0
	1900 Physical Science	0	461	181
Total		54,067	30,004	8,415

NMHED Higher Ed Funding Formula Overview, October 2010, Page 9

### An Example of Student Credit Hour Distribution for a University (cont.)

Student credit hours are summarized by tier and by level of instruction then multiplied by the dollar values according to the level of instruction and tier..

#### Summary of Student Credit Hours

Tier	Level of Instruction		
	Lower	Upper	Graduate
1	46,380	25,817	7,274
2	7,207	3,499	960
3	480	688	181
Total	54,067	30,004	8,415

TOTAL Student Credit Hours                      92,486

NMHED Higher Ed Funding Formula Overview, October 2010, Page 10

## FY 2010-11 Funding Formula Cost Factors:

Instruction/Instructional Support:  
(per student credit hour in each tier and level)

	<b>Lower</b> Freshman/Sophomore	<b>Upper</b> Junior/Senior	<b>Graduate</b>
<b>Tier 1</b>	<b>\$133.34</b>	<b>\$293.44</b>	<b>\$635.09</b>
<b>Tier 2</b>	<b>\$199.20</b>	<b>\$459.40</b>	<b>\$873.81</b>
<b>Tier 3</b>	<b>\$321.16</b>	<b>\$527.84</b>	<b>\$1,396.77</b>

Student Services: \$389.84 per student (Fall headcount)

Physical Plant: \$4.29 per I&G square foot  
Utilities: from \$0.74 to \$2.43 per I&G square foot

NMHED Higher Ed Funding Formula Overview, October 2010, Page 11

## An Example of Student Credit Hour Distribution for a University (cont.)

This results in formula Instruction and Instructional Support  
expenditures

Tier	Level of Instruction		
	Lower	Upper	Graduate
1	\$6,184,309	\$7,575,740	\$4,619,645
2	\$1,435,634	\$1,607,441	\$838,858
3	\$154,157	\$363,154	\$252,815
Total	\$7,774,100	\$9,546,335	\$5,711,318
<b>TOTAL Instruction and Instructional Support</b>			<b>\$23,031,753</b>

NMHED Higher Ed Funding Formula Overview, October 2010, Page 12

### **Calculation of Enrollment-Driven Workload Adjustment:**

- Total student credit hours are compared with the total student credit hours in the base year, which varies by institution. The most recent academic year becomes the base year, if an institution qualifies for a workload adjustment; otherwise, the base year does not change.
- Total Instruction and Instructional Support dollars are compared with the total dollars in the base year.
- If the student credit hours OR the Instruction and Instructional Support dollars increase by 3% or more, OR if the student credit hours decrease by 5% or more (note: dollar amount not considered on down-side), an institution qualifies for a workload adjustment.

NMHED Higher Ed Funding Formula Overview, October 2010, Page 13

### **Funding Formula Timeline:**

- **July – August**  
Enrollment band, student services, 3% scholarship, tuition revenue credit, dual credit, physical plant/utilities
- **September – October**  
Land & Permanent Fund and mil levy revenue credit, I&G equipment, salary base, inflationary factors
- **November 1**  
Summary and Detail of BASE I&G formula calculations and recommended inflationary or budget-reduction adjustments
- **After Legislative Session**  
Summary and Detail of FINAL I&G formula calculations (FY11: 106-page document)

NMHED Higher Ed Funding Formula Overview, October 2010, Page 14

### **Process for Funding Formula Changes:**

- When changes to the higher education funding formula are deemed necessary, the Higher Education Funding Task Force (HEFTF) makes recommendations for changes in the formula to the Secretary of Higher Education
- The HEFTF is comprised of representatives from institutions of higher education, Governor's Office, DFA, LFC, LESC and NMHED
- The Secretary includes formula changes in the annual funding recommendation for higher education to DFA and LFC due November 1
- Those formula changes approved and enacted during the legislative process are reflected in the final I&G General Fund appropriation for each institution and in the NMHED I&G schedules

NMHED Higher Ed Funding Formula Overview, October 2010, Page 15

### **Higher Education Incentive and Matching Funds to address Statewide Objectives:**

- Program Development and Enhancement Fund
- Higher Education Performance Fund
- Higher Education Endowment Fund
- Workforce Skills Development Fund (never funded)
- Technology Enhancement Fund (never funded)

NMHED Higher Ed Funding Formula Overview, October 2010, Page 16



## Appendices:

- Appendix A:  
Summary of General Fund Appropriations for I&G  
– Fiscal Year 2011 (Final 6/22/10)
- Appendix B:  
Summary of General Fund Appropriations for I&G  
– Fiscal Year 2012 (Draft 10/14/10)
- Appendix C:  
Instruction & General Appropriations FY2008–FY2012

NMHED Higher Ed Funding Formula Overview, October 2010, Page 17

For more information on the Higher Education Funding Formula, or  
funding in general, contact:

**M. Tino Pestalozzi, CPA**  
**Deputy Cabinet Secretary**

2048 Galisteo Street, Santa Fe, NM 87505-2100

Phone: 505.476.8400

[tino.pestalozzi@state.nm.us](mailto:tino.pestalozzi@state.nm.us)

[www.hed.state.nm.us](http://www.hed.state.nm.us)

For complete details of the most recent fiscal year, see  
“FY11 Summary and Detail of Final I+G Formula Calculations 6/22/2010”  
(106 pages)  
on NMHED’s website

**(Please note that the information in this document is subject to change.)**

NMHED Higher Ed Funding Formula Overview, October 2010, Page 18

**NEW MEXICO HIGHER EDUCATION DEPARTMENT**  
**Summary of General Fund Appropriations for Instruction and General**  
**Fiscal Year 2011**

	Four-Year Institutions	UNM/HSC Med School	Two-Year Institutions	TOTAL
<b>FY10 I&amp;G Appropriations - Pre-Solvency</b>	<b>424,427,900</b>	<b>61,921,400</b>	<b>179,863,900</b>	<b>666,213,200</b>
Special Session reductions (net of flexibility adjustments)	(17,024,000)	0	(7,101,800)	(24,125,800)
<b>FY10 I&amp;G Appropriations - Post-Solvency</b>	<b>407,403,900</b>	<b>61,921,400</b>	<b>172,762,100</b>	<b>642,087,400</b>
<b>FY11 Formula Adjustments:</b>				
Workload:				
Enrollment	6,701,722	N/A	18,224,384	24,926,106
Physical Plant & Utilities	3,722,072	N/A	2,304,996	6,027,068
Total Workload Adjustment	10,423,794	0	20,529,380	30,953,174
Transfers:				
Building R&R @ 67.5%	0	N/A	0	0
Equipment R&R @ 23.25% (using FY10 inventory base)	0	0	0	0
3% Scholarship	569,367	N/A	323,595	892,962
Total Transfer Adjustment	569,367	0	323,595	892,962
Tuition Revenue Credit:				
Change in formula tuition expenditure	4,139,709	N/A	599,309	4,739,018
Tuition credit base adjustment	(5,314,228)	N/A	(3,514,240)	(8,828,468)
Tuition rate increase assumption	(9,355,116)	(250,900)	(4,573,290)	(14,179,306)
Net Adjustment	(10,529,635)	(250,900)	(7,488,221)	(18,268,756)
Other Revenue Credits (L&PF, mil levy)	(2,075,609)	N/A	(3,776,674)	(5,852,283)
Inflationary increases (group, risk, library, utility)	0	0	0	0
Salary and ERB increase	0	0	0	0
Branch phase-in (ENMU-Ruidoso Year 5 of 5))	N/A	N/A	105,659	105,659
Total Formula Adjustments	(1,612,083)	(250,900)	9,693,739	7,830,756
<b>Other Adjustments as enacted:</b>				
Across the board Sec. 4 reduction and Sec. 10 sanding	(16,563,600)	(2,392,100)	(7,426,900)	(26,382,600)
Miscellaneous adjustments (including flexibility)	1,538,900	355,000	96,900	1,990,800
Rounding	83	0	(39)	44
Total other Adjustments	(15,024,617)	(2,037,100)	(7,330,039)	(24,391,756)
<b>FY11 I&amp;G Appropriations</b>	<b>390,767,200</b>	<b>59,633,400</b>	<b>175,125,800</b>	<b>625,526,400</b>
Change from FY10 post-solvency	(16,636,700)	(2,288,000)	2,363,700	(16,561,000)
	-4.08%	-3.70%	1.37%	-2.58%

**Note 1):** In addition, the following amounts were appropriated from the Tobacco Settlement Program Fund to UNM/HSC I&G: for **FY10**, \$930,000 originally, then reduced to \$856,530; for **FY11**, \$837,000 originally, then reduced to \$751,035.

**NEW MEXICO HIGHER EDUCATION DEPARTMENT**  
**Summary of General Fund Appropriations for Instruction and General**  
**Fiscal Year 2012**

	Four-Year Institutions	UNM/HSC Med School	Two-Year Institutions	TOTAL
<b>FY11 I&amp;G Appropriations - Original</b>	<b>390,767,200</b>	<b>59,633,400</b> <sup>1)</sup>	<b>175,125,800</b>	<b>625,526,400</b>
<b>FY12 Formula Adjustments:</b>				
Workload:				
Enrollment	32,196,729	N/A	29,194,945	61,391,674
Physical Plant & Utilities	1,308,606	N/A	1,027,608	2,336,214
Total Workload Adjustment	33,505,335	0	30,222,553	63,727,888
Transfers:				
Building R&R @ 67.5%	0	N/A	0	0
Equipment R&R @ 23.25%	(192,256)	(170,282)	(14,046)	(376,584)
3% Scholarship	1,222,034	N/A	462,135	1,684,169
Total Transfer Adjustment	1,029,778	(170,282)	448,089	1,307,585
Tuition Revenue Credit:				
Change in formula tuition expenditure	8,503,007	N/A	(96,309)	8,406,698
Tuition credit base adjustment	(26,094,267)	N/A	(6,938,428)	(33,032,695)
Tuition rate increase assumption	0	0	0	0
Dual credit tuition adjustment	255,661	N/A	465,454	721,115
Net Adjustment	(17,335,599)	0	(6,569,283)	(23,904,882)
Other Revenue Credits (L&PF, mil levy)	983,595	N/A	2,553,017	3,536,612
Inflationary increases (group, risk, library, utility)	0	0	0	0
<b>FY12 I&amp;G Appropriations</b>	<b>408,950,309</b>	<b>59,463,118</b>	<b>201,780,176</b>	<b>670,193,603</b>
Change from FY11 original	18,183,109	(170,282)	26,654,376	44,667,203
	4.65%	-0.29%	15.22%	7.14%

Note 1): In addition, \$751,035 is appropriated from the Tobacco Settlement Fund to UNM/HSC I&G (reduced from \$837,000).

# APPENDIX C

## NEW MEXICO HIGHER EDUCATION DEPARTMENT General Fund Appropriations for Instruction & General Universities (including Health Sciences Center) and Community Colleges

	FY08 Final	FY09 Original	FY09 Reduced	FY10 Original	FY10 Reduced	FY11 Original	FY11 Reduced	FY12 Base Draft 1)	FY09-FY12 Adjust's
Base funding		\$657,980.1	\$684,883.6	\$667,756.8	\$666,213.2	\$642,087.4	\$625,526.4	\$605,227.3	
Regular adjustments (incl inflation)		8,407.6		11,053.9		21,243.9		44,667.2	85,372.6
Misc adjustments (mostly HSC)		2,915.5		200.0		3,657.9		0.0	6,773.4
Compensation (incl ERB)		19,862.6		5,096.6		0.0		0.0	24,959.2
Tuition credit increase enacted		(4,282.2)		(6,697.0)		(14,179.3)		0.0	(25,158.5)
Solvency reductions		0.0	(17,126.8)	(11,197.1)	(24,125.8)	(27,283.5)	(20,299.1)	(44,667.2)	(144,699.5)
Subtotal		684,883.6	667,756.8	666,213.2	642,087.4	625,526.4	605,227.3	605,227.3	(52,752.8)
ARRA SFSF-Education grants					15,538.4	10,937.5		0.0	26,475.9
<b>TOTAL</b>	<b>\$657,980.1</b>	<b>\$684,883.6</b>	<b>\$667,756.8</b>	<b>\$666,213.2</b>	<b>\$657,625.8</b>	<b>\$636,463.9</b>	<b>\$605,227.3</b>	<b>\$605,227.3</b>	<b>(\$26,276.9)</b>

Percent Change each Stage  
**Percent Change from FY08**

4.1% -2.5% -0.2% -1.3% -3.2% 0.0%  
4.1% 1.5% 1.3% -0.1% -8.0% -8.0%

**Formula Student Credit Hours (000)**

2,485.3 2,456.3 2,515.4 2,641.8 2,641.8 2,916.2

Percent Change each Year

-1.2% 2.4% 5.0% 10.4%

**Percent Change from FY08**

-1.2% 1.2% 6.3% 17.3%

**Note 1): Solvency reduction assumes flat funding for FY12, off-setting I&G net workload increases.**